

Walgreen
DRUG STORES

MRB
CORP. FILE

WALGREEN CO. (An Illinois Corporation) AND SUBSIDIARY COMPANIES
ANNUAL REPORT TO STOCKHOLDERS—SEPTEMBER 30, 1940





Walgreen

DRUG STORES

CHICAGO
November 22, 1940.

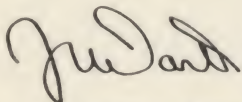
TO OUR STOCKHOLDERS:

Financial statements certified by independent public accountants covering our fiscal year ended September 30th, are enclosed. Sales were higher than the previous year by about three and a half million dollars. The number of shares of common stock outstanding did not change during the year, and the earnings per share were \$2.10, as against \$1.87 last year.

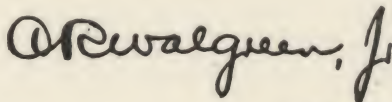
During the year, we opened 25 new stores, and remodeled and enlarged a number of others. The cost of this work was substantial, and, in accordance with the Company's long standing policy, all of it, except that of removable fixtures installed, was charged off against the year's income. We closed or disposed of 30 stores. During the ensuing year, we plan to continue our store improvement program.

Our last letter to you referred to the initiation of an employees' pension plan. A great amount of work has been done upon this subject and you will find an explanation of the plan enclosed for your consideration. It is our belief that this pension plan will prove a good investment for the stockholders of the business, by attaching good men and women more firmly to the Company, and by further improving morale.

Yours very truly,



General Manager.



President.

ARTHUR ANDERSEN & CO.

135 SOUTH LA SALLE STREET
CHICAGO

To the Board of Directors,
Walgreen Co.:

We have examined the consolidated balance sheet of WALGREEN CO. (an Illinois corporation) AND SUBSIDIARY COMPANIES as of September 30, 1940, and the statements of consolidated profit and loss and surplus accounts for the year ended that date. In connection therewith we have examined or tested accounting records of the companies and other supporting evidence and have reviewed the system of internal control and the accounting procedures of the companies by methods and to the extent we deemed appropriate, but we did not make a detailed audit of the transactions.

In our opinion, the accompanying consolidated balance sheet and related statements of consolidated profit and loss and surplus accounts fairly present the financial position of Walgreen Co. and subsidiary companies as at September 30, 1940, and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles maintained by the companies on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

Chicago, Illinois,
November 14, 1940.

WALGREEN CO. AND SU
CONSOLIDATED BALANCE S

A S S E T S

CURRENT ASSETS:

Cash in banks, in transit and on hand.....	\$ 6,345,467.21
United States Savings Bonds at current redemption value	304,000.00
Accounts receivable, less reserves.....	821,144.30
Inventories of merchandise, priced at the lower of cost or market; based on physical inventories taken continuously throughout the year.....	9,477,626.89
TOTAL CURRENT ASSETS	\$16,948,238.40

PREPAID RENT (Including advances to lessors), INSURANCE, TAXES, ETC.	1,240,892.59
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INVESTMENTS AND OTHER ASSETS:

Notes and accounts receivable, less reserves.....	\$ 103,408.59	
Investment in and advances to affiliated company.....	448,000.00	
Investments in and advances to lessor real estate companies	425,499.86	
Stocks and bonds of other companies, at cost.....	282,791.42	
Preferred stock of Walgreen Managers Investment Co., at cost	50,000.00	
Note receivable from Walgreen Managers Investment Co., secured by 51,814 shares of Walgreen Co. common stock held on contract under employees' stock purchase plan	703,000.00	2,012,699.87

FIXED ASSETS:

Classification	Cost	Reserves for Depreciation	Net
Land	\$ 614,281.85	\$ —	\$ 614,281.85
Buildings (including buildings on leased land)	2,200,333.13	364,223.57	1,836,109.56
Equipment	11,133,929.80	4,618,653.87	6,515,275.93
	<u>\$13,948,544.78</u>	<u>\$4,982,877.44</u>	<u>\$8,965,667.34</u>
Short life equipment, at cost less amortization			327,191.25
			<u>9,292,858.59</u>

GOODWILL, LEASEHOLDS, LEASEHOLD IMPROVEMENTS, ETC., at nominal value	1.00
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\$29,494,690.45

UBSIDIARY COMPANIES

HEET—SEPTEMBER 30, 1940

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	\$ 2,140,598.93
Employees' investment certificates	185,950.00
Accrued payrolls, rentals and other expenses	400,646.96
Accrued taxes other than Federal income taxes	795,396.33
Reserve for Federal income taxes	876,816.43
Amount reserved for proposed employees' retirement income plan (net proceeds of life insurance on C. R. Walgreen)	466,631.53

TOTAL CURRENT LIABILITIES	\$ 4,866,040.18
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CONTINGENT LIABILITIES:

In connection with pending lawsuits, etc., estimated not to exceed	\$ 200,000.00
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Under other agreements: A trustee acting for a group of employees of the company, in August 1936, pur- chased certain shares of Walgreen Co. common stock, principally from an estate, and sold this stock to such employees under deferred payments; 20,000 shares have been pledged by the trustee to secure repayment of bank loans. Walgreen Co. has agreed that it will, in event of default on the part of the trustee, repurchase such shares for an amount equal to the unpaid amount of such loans....	94,000.00
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CAPITAL STOCK AND SURPLUS:

Preferred stock 4½% cumulative, par value \$100 per share, with warrants attached for the purchase on or before September 15, 1943 of common stock at prices varying from \$39.00 to \$44.00 per share; redeemable on call or in voluntary liquidation at premiums varying from \$6.00 to \$4.00 per share— Authorized and outstanding 100,000 shares.....	\$10,000,000.00
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Common stock without par value— Authorized 1,955,522 shares (100,000 shares re- served against exercise of warrants attached to 4½% preferred stock) Issued 1,292,485 shares	11,484,111.93
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Earned surplus (restricted in an amount equal to two years' dividends on 4½% preferred stock and, under the Illinois Business Corporation Act, to the extent of cost of treasury stock)	3,655,725.76
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\$25,139,837.74

Deduct—Preferred stock held in treasury, 5,775 shares at cost	511,187.47	24,628,650.27
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\$29,494,690.45

WALGREEN CO. AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the Year Ended September 30, 1940

GROSS SALES, less returns and allowances		\$75,515,749.29
Less—Provision for sales taxes		1,222,589.11
Net sales		<u>\$74,293,160.18</u>
COST OF SALES		47,329,506.49
Gross profit on sales		<u>\$26,963,653.69</u>
OTHER OPERATING INCOME		203,906.78
Total		<u>\$27,167,560.47</u>
OPERATING EXPENSES:		
Selling, advertising and occupancy	\$22,036,639.37	
General and administrative	717,252.57	22,753,891.94
Net profit from operations		<u>\$ 4,413,668.53</u>
OTHER CHARGES AND INCOME:		
Other charges—		
Improvements to leased properties	\$ 258,865.42	
Lease cancellation payments and expenses (net).....	137,092.37	
Capital stock and franchise taxes, etc.	107,691.74	
Provision for loss on long term receivables and real estate, and write-off of intangible assets (\$185,982.97), less profit on sale of investments, real estate and other assets	36,842.19	
Miscellaneous	16,336.91	
Total	<u>\$ 556,828.63</u>	
Other income—		
Dividends received	\$ 43,390.83	
Interest received, etc.	114,310.32	
Total	<u>\$ 157,701.15</u>	399,127.48
Net profit before Federal income taxes		<u>\$4,014,541.05</u>
NET PROCEEDS OF LIFE INSURANCE ON C. R. WALGREEN	\$ 466,631.53	
Less—Amount reserved for proposed employees' re- tirement income plan	466,631.53	—
PROVISION FOR FEDERAL INCOME TAXES		865,000.00
Net profit carried to earned surplus		<u>\$ 3,149,541.05</u>

NOTE: The provision for depreciation of buildings and equipment for the current year was \$923,372.27. In addition, amortization of short life equipment, which substantially represents current expenditures, amounted to \$353,647.38.

CONSOLIDATED EARNED SURPLUS ACCOUNT

For the Year Ended September 30, 1940

BALANCE, SEPTEMBER 30, 1939		\$3,004,910.37
NET PROFIT for the year ended September 30, 1940		3,149,541.05
		<u>\$6,154,451.42</u>
DIVIDENDS PAID:		
On 4½% preferred stock—\$4.50 per share	\$ 430,749.66	
On common stock—\$1.60 per share	2,067,976.00	2,498,725.66
BALANCE, SEPTEMBER 30, 1940		<u>\$3,655,725.76</u>

OFFICERS AND DIRECTORS

CHARLES R. WALGREEN, JR.....	<i>Director—President</i>
JUSTIN W. DART.....	<i>Director—General Manager</i>
SANFORD J. BOWYER.....	<i>Director—General Auditor</i>
HARRY GOLDSTINE.....	<i>Director—Vice President</i>
ROBERT G. KNIGHT.....	<i>Director—Comptroller</i>
ROLAND G. SCHMITT.....	<i>Director—Vice President—Sec’y</i>
A. L. STARSHAK.....	<i>Director—Vice President</i>
RAY E. WALKER.....	<i>Director—of Agency Division</i>
JAMES E. WARD.....	<i>Director—of Purchases</i>
ELMER E. RUECKERT.....	<i>Treasurer</i>
WILLIAM G. JOHNSTON.....	<i>Assistant Secretary</i>
BERT O. PINCH.....	<i>Assistant Secretary</i>

TRANSFER AGENTS

In Chicago	FIRST NATIONAL BANK
In New York	COMMERCIAL NATIONAL BANK & TRUST Co. (Common Stock)
	GUARANTY TRUST Co. (Preferred Stock)

REGISTRARS

In Chicago	HARRIS TRUST & SAVINGS BANK
In New York	GUARANTY TRUST Co. (Common Stock)
	COMMERCIAL NATIONAL BANK & TRUST Co. (Preferred Stock)

AUDITORS

ARTHUR ANDERSEN & Co., Chicago





